

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-09 FRB-01 INR-07 IO-13 NEA-10
NSAE-00 OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 INRE-00 USIE-00 SSO-00 OES-06
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FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 6108

UNCLAS SECTION 01 OF 02 OECD PARIS 10688

PASS: CEA, TREAS, FRB

E.O. 11652: N/A

TAGS: OECD, ECON

SUBJECT: MAY MEETINGS OF ECONOMIC POLICY COMMITTEE (EPC)

WORKING PARTIES 2 AND 4

REF: (A) OECD PARIS 7373; (B) OECD PARIS 10336;
(C) OECD PARIS 32052; (D) OECD PARIS 33074

1. THIS MESSAGE SUPPLEMENTS REFS A AND B AND PROVIDES
FURTHER DETAILS ON MAY 3-4 MEETING OF WP-2 AND MAY 11-12
MEETING OF WP-4.

WP-2 (GROWTH):

2. FIRST DAY: WP-2 WILL FOCUS ON IMPACT OF PUBLIC
EXPENDITURES ON ECONOMIC GROWTH. ANALYSIS OF AGGREGATE
PUBLIC EXPENDITURE TRENDS AND PROJECTIONS WILL DRAW FROM
DETAILED SECTORAL STUDIES ALREADY COMPLETED BY WP-2
(E.G., INCOME MAINTENANCE, HEALTH, EDUCATION) WITH A VIEW
TOWARD DETERMINING WHERE SAVINGS CAN BE MADE AND TOWARD
IDENTIFICATION OF CONSTRAINTS ON EXPENDITURE SIDE TO
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EXPANSION OF PUBLIC SECTOR (I.E., "SATURATION" LEVELS IN
SPECIFIC EXPENDITURE CATEGORIES).

3. WP-2 WILL ALSO UNDERTAKE CLOSER EXAMINATION OF PUB-
LIC SECTOR REVENUES TO SHED LIGHT ON WHICH TAX SOURCES
HAVE GROWTH POTENTIAL AND ON THOSE AREAS IN WHICH RESIS-
TANCE TO TAX INCREASE IS GREATEST. IN THIS CONTEXT,

WORKING PARTY WILL CONSIDER ISSUE OF "TAX-PUSH" INFLATION AND WILL EXAMINE NATURE OF CONSTRAINT TO PUBLIC EXPENDITURES IMPOSED BY BUDGETARY DEFICITS.

4. WP-2 WILL ALSO CONSIDER UTILITY OF GOING INTO FURTHER DETAIL ON CLASSIFICATION OF PUBLIC EXPENDITURES IN ORDER TO MAKE TREATMENT OF EXPENDITURES MORE SYMMETRICAL WITH DETAIL ALREADY AVAILABLE ON SOURCES OF REVENUE FOR PUBLIC SECTOR.

5. SECOND DAY: WORKING PARTY WILL CONCENTRATE ON DETERMINANTS OF STRUCTURAL UNEMPLOYMENT WITH PRIMARY ATTENTION GIVEN TO SUPPLY SIDE OF LABOR MARKET (E.G., SECRETARIAT FEELS THAT COMPOSITIONAL SHIFTS IN U.S. LABOR FORCE ARE UNIQUE IN OECD AREA). MAJOR ISSUE ADDRESSED WILL BE EXTENT TO WHICH GROWING LABOR FORCE CAN BE ABSORBED IN FACE OF CERTAIN COMPOSITIONAL SHIFTS THEREIN. WP-2 WILL ALSO HAVE PRELIMINARY DISCUSSION OF EFFECTS OF CAPITAL/LABOR SUBSTITUTION ON EMPLOYMENT.

6. WITH ITS EMPHASIS ON LABOR MARKET PROBLEMS AND PUBLIC SECTOR TRENDS, THIS MEETING IS INTENDED TO BE FIRST STEP TOWARD PREPARATION BY WP-2 OF NEW MEDIUM-TERM GROWTH PROJECTIONS. THE MAJOR ANALYTIC CONCLUSIONS REACHED WILL BE COMPLEMENTED AT FUTURE WP-2 MEETINGS WITH CONSIDERATION IN DEPTH OF DETERMINANTS OF INVESTMENT, OF CAPITAL/LABOR SUBSTITUTION AND OF EXTERNAL

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ECONOMIC FACTORS. THESE VARIOUS ELEMENTS WILL BE FUSED TO PROVIDE FOUNDATION OF PROJECTION OF OECD AREA GROWTH TO 1985 (SEE REF C). WORKING PARTY WILL ALSO ADDRESS ISSUE OF HOW NEW MEDIUM-TERM GROWTH PROJECTION SHOULD BE STRUCTURED ANALYTICALLY.

WP-4 (COSTS AND PRICES):

7. FIRST DAY: WORKING PARTY WILL CONCENTRATE ON MEASUREMENT OF IMPACT OF FISCAL POLICY (PRIMARILY ON INFLATION, BUT TO A LESSER EXTENT ON GROWTH). THIS MEETING CONSTITUTES FOLLOW-ON TO DECEMBER, 1975 WP-4 DISCUSSION OF MONETARY POLICY AND WILL HELP ESTABLISH ANALYTIC BASIS FOR CONSIDERATION AT TECHNICAL LEVEL OF FISCAL/MONETARY POLICY MIX AT FUTURE MEETINGS. IN PROPOSING STUDY OF FISCAL POLICY INDICATORS OR "NORMS," SECRETARIAT IS MOTIVATED BY BELIEF THAT EPC CURRENTLY HAS INADEQUATE ANALYTICAL TOOLS FOR ASSESSING RELATIVE STANCE OF FISCAL POLICY IN MEMBER COUNTRIES.

8. IN ADDITION, SECRETARIAT WILL SUGGEST AT MEETING THAT
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WP-4 ENGAGE IN CROSS-COUNTRY COMPARISON OF IMPACT OF SHIFTS IN FISCAL POLICY. SECRETARIAT PROPOSAL CALLS FOR COUNTRIES TO CALCULATE FISCAL IMPACT USING THEIR OWN NATIONAL FORECASTING TECHNIQUES AND TO PRESENT RESULTS FOR COMPARISON AND ANALYSIS AT LATER MEETING OF WORKING PARTY. SECRETARIAT DOES NOT FEEL IT HAS RESOURCES TO CONSTRUCT DETAILED "IMPACT MODELS" FOR ALL COUNTRIES, BUT INTENDS TO USE WORK IN THIS CONTEXT TO HELP DEVELOP INDICATORS OF STANCE OF FISCAL POLICY MENTIONED IN PARA 6 ABOVE.

9. SECOND DAY: AS INDICATED REF B, REVIEW OF RECENT COST/PRICE DEVELOPMENTS WILL TAKE PLACE ON SECOND DAY.
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